

ORIGINAL

**BELLSOUTH**

**BellSouth**  
Suite 900  
1133-21st Street, N.W.  
Washington, D.C. 20036-3351  
kathleen.levitz@bellsouth.com

**Kathleen B. Levitz**  
Vice President-Federal Regulatory  
  
202 463-4113  
Fax 202 463-4198

**RECEIVED**

DEC 8 1999

December 8, 1999

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

EX PARTE OR LATE FILED

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, S.W.  
Washington, D.C. 20554

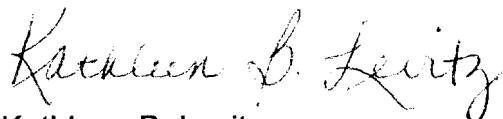
Re: Written Ex Parte in CC Docket No. 80-286

Dear Ms. Salas:

This is to inform you that on December 8, 1999, I, on behalf of BellSouth Corporation, mailed the attached documents to Irene Flannery, Sharon Webber, Robert Loube, Will Cox, Andy Firth, Gene Fullano, and Steve Burnett of the Common Carrier Bureau's Accounting Policy Division.

Pursuant to Section 1.1206(b)(1) of the Commission's rules, I am filing two copies of this notice and that written ex parte presentation in the docket identified above. Please associate this notification with the record in that proceeding.

Sincerely,



Kathleen B. Levitz

**Attachments**

cc: Irene Flannery  
Sharon Webber  
Robert Loube  
Will Cox  
Andy Firth  
Gene Fullano  
Steve Burnett

File of Copies rec'd  
LIBR/ASDE

541

**BELLSOUTH**

BellSouth  
Suite 900  
1133-21st Street, N.W.  
Washington, D.C. 20036-3351

kathleen.levitz@bellsouth.com

**RECEIVED**

**DEC 8 1999**

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Kathleen B. Levitz  
Vice President-Federal Regulatory

202 463-4113  
Fax 202 463-4198

WRITTEN EX PARTE

December 8, 1999

Ms. Irene Flannery  
Federal Communications Commission  
Accounting Policy Division  
Common Carrier Bureau-Room 5-A426  
445 12<sup>th</sup> St. S.W.-The Portals  
Washington, D.C. 20554

Re: CC Docket No. 80-286

Dear Ms Flannery:

On December 3, 1999 representatives of BellSouth met with you and members of your staff to present our analysis of the impact upon the separations process of treating Internet traffic as intrastate traffic. During that meeting we mentioned a related presentation that USTA had made to the Bureau's Competitive Pricing Division on July 13, 1999. Although focused upon issues related to the interstate access rate structure for local switching, that earlier presentation had discussed the relationship between the growth in Internet minutes of use and the declining percentage of switching investment and expense allocated to the interstate jurisdiction. Because members of your staff expressed an interest in seeing the materials used during the USTA presentation, I am attaching a copy of those materials. I hope they find these materials useful.

Pursuant to Section 1.1206(b)(1) of the Commission's rules, I am filing two copies of this written ex parte presentation with the Secretary of the Commission and requesting that it be associated with the record in the docket identified above.

Sincerely,



Kathleen B. Levitz

Attachment

cc: Sharon Webbe  
Robert Loube

Will Cox  
Andy Firth

Gene Fullano  
Steve Burnett

Stamp copy



UNITED STATES  
TELEPHONE  
ASSOCIATION

RECEIVED

JUL 13 1999

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

July 13, 1999

Ex Parte

Magalie Roman Salas  
Secretary  
Federal Communications Commission  
445 - 12<sup>th</sup> Street, SW - TW-A325  
Washington, D.C. 20554

Re: CC Docket No. 96-262

Dear Ms. Roman Salas:

On July 13, 1999, the undersigned, along with Scott Randolph, (GTE), Pete Martin (BellSouth), John Bosley (Bell Atlantic), Tony Alessi (Ameritech), Whit Jordan (BellSouth) and John Kure (U S WEST), on behalf of the United States Telephone Association, met with Jay Atkinson, Aaron Goldschmidt and John Scott of the Common Carrier Bureau.

The purpose of the meeting was to discuss local switching rate structure issues. The attached material was presented and discussed.

Pursuant to Commission Rule 1.1206(b)(1), an original and one copy of this letter and attachment are being provided to you for inclusion in the public record for the above-referenced proceeding. Please contact me with any questions.

Sincerely,

Linda Kent  
Associate General Counsel

attachment

cc: J. Atkinson  
A. Goldschmidt  
J. Scott

Post-It® Fax Note	7671	Date	7/17/99	# of pages	1/2
To	WHIT JORDAN	From	BOB VIN DAVIS		
Co./Dept.		Co.			
Phone #		Phone #	326-7200		
Fax #	403-4198	Fax #			

---

# **Local Switching**

## **Rate Structure and Access Reform**

Outline by USTA PC-ART Subgroup

# Local Switching

## AT&T Arguments

---

- AT&T argues that excessive local switching returns must be reduced
- AT&T ignores the big picture
  - » Local switching cannot be viewed in isolation since it is part of an overall price regulation plan
  - » Local switching return has been inflated by a reduction in % of switching investment allocated to the interstate jurisdiction

# Local Switching

## Part of a Bigger Regulation Plan

---

A Total Company Productivity Factor is applied to all interstate prices

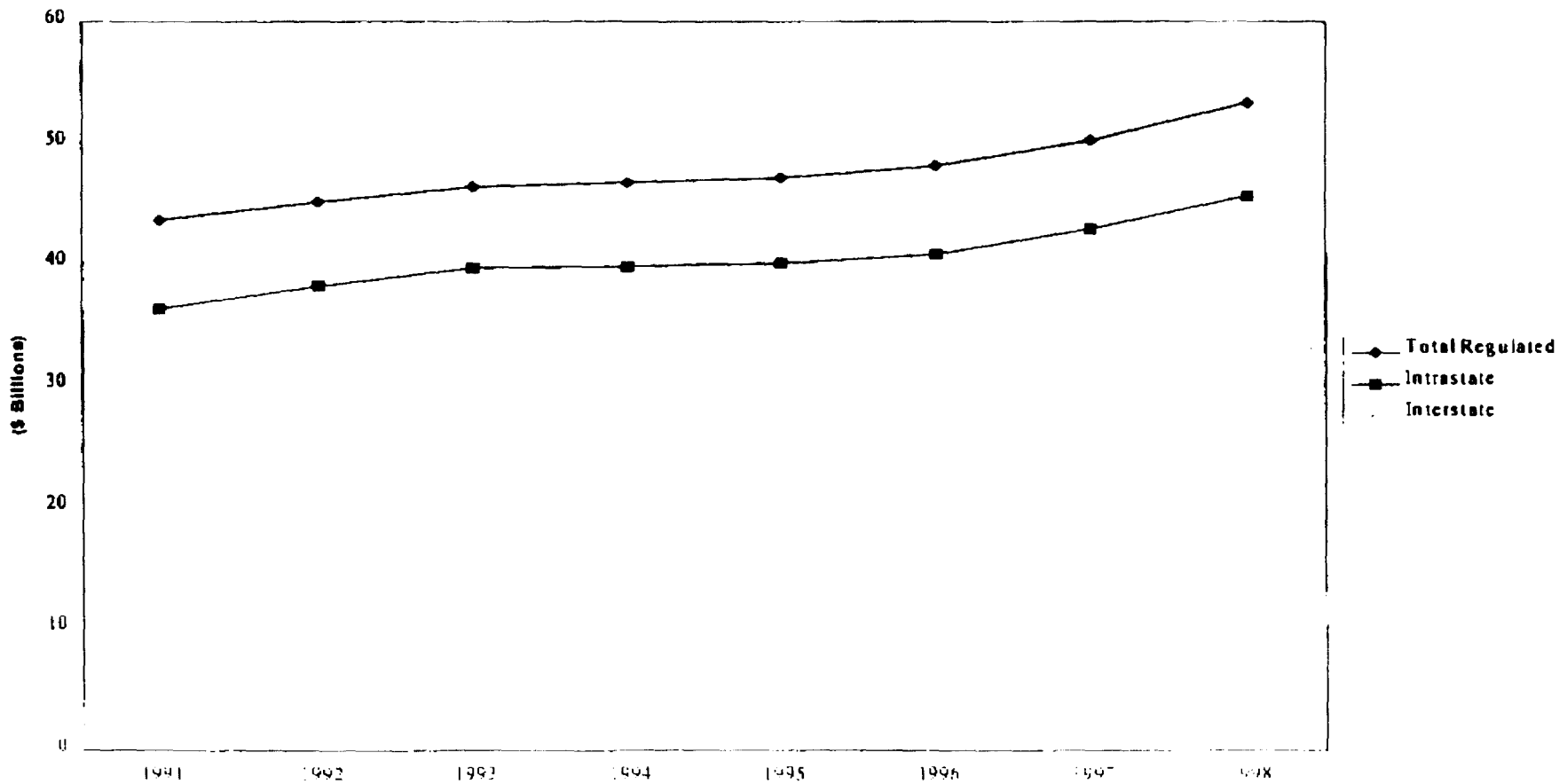
- » It is impossible to calculate separate X-factors for piece parts of the business  
    "The FCC reasonably concluded that "the record before us does not allow us to quantify the extent, if any, to which interstate productivity growth may differ significantly from total company productivity growth" .... [and] it is not clear that "interstate productivity," as opposed to total company productivity, is measurable, or even economically well-defined. .... The Commission had previously recognized this analytical difficulty, questioning "whether it would be possible to develop separate production functions for interstate and intrastate services" (Price Cap Appeal Decision, 5/99)
- » Local Switching may have a relatively "high" return, but the returns for other price cap baskets are low or have a negative return
- » Looking at individual baskets in isolation ignores the overall working of price regulation. In effect, some universal service implicit support has been shifted into local switching from common line due to the working of a Total Company X-factor
- » Price regulation is working. Consumers have benefited. It is important that the efficiency maximizing incentive generated by price caps is **not** undermined.

# Local Switching Observations

---

- It is **not** economically correct to look at local switching in isolation
- Observations
  - » Overall regulated switching investment has increased
  - » The % of switching investment/expense allocated to the interstate jurisdiction has declined significantly in recent years due in large part to internet usage
  - » Local switching expenses do not reflect a "declining cost industry"
  - » Industry growth rate for interstate switched access MOUs fell to <6% in 1998 from >7% in 1994

# COE Local Switching Gross Investment

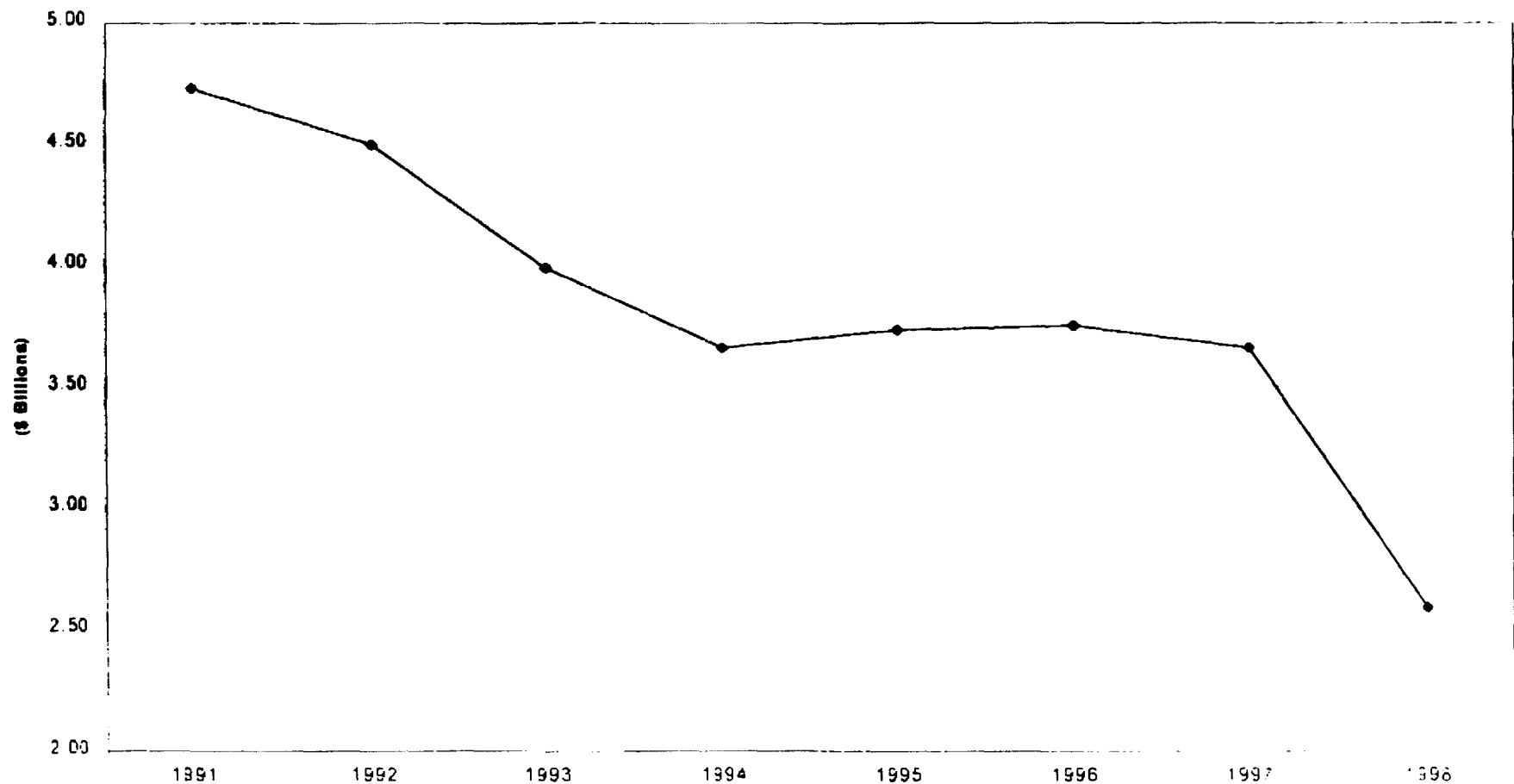




# Interstate Local Switching

## Average Net Investment

---



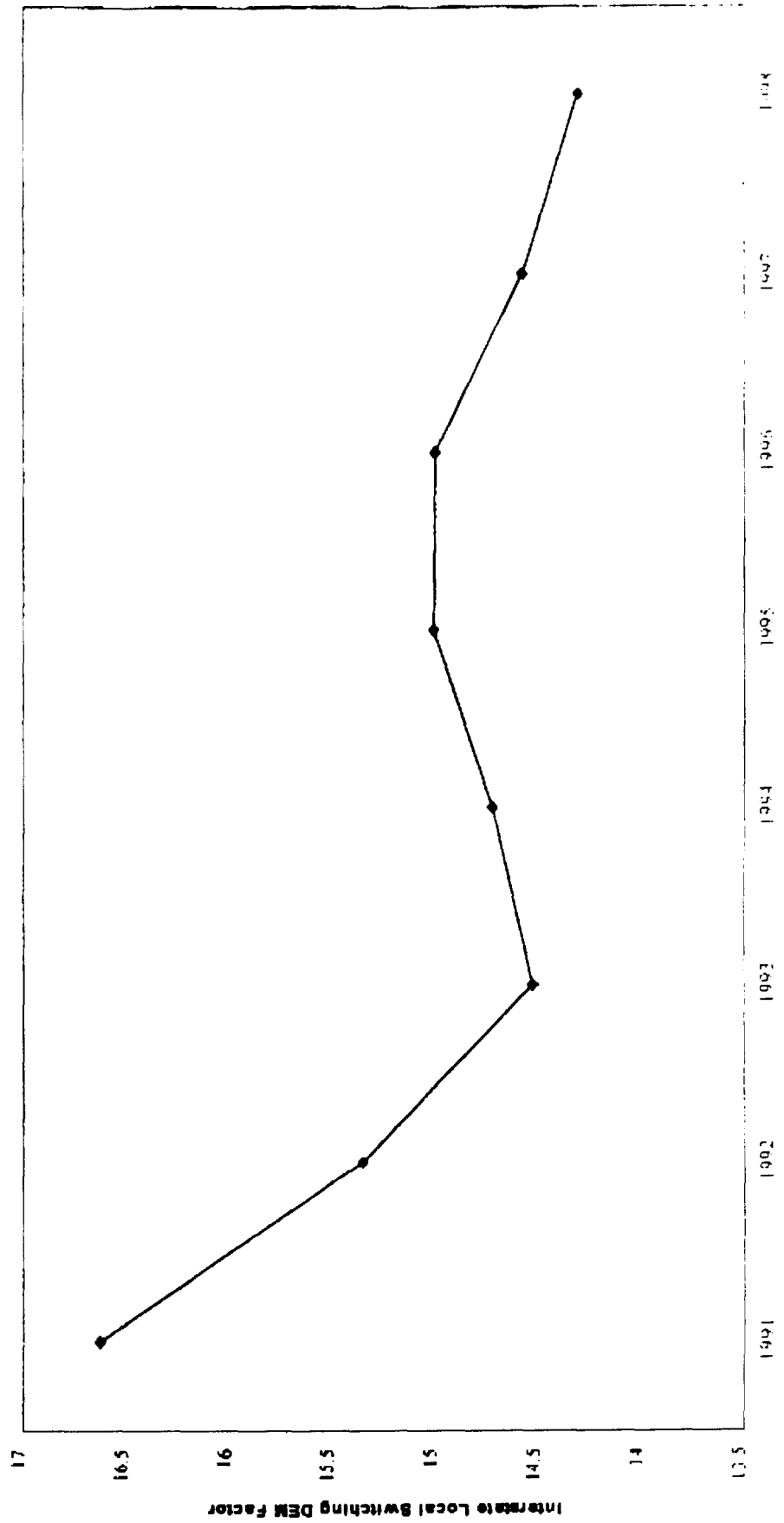
# Interstate Local Switching

## Gross and Average Net Investment

---

- Total regulated and Intrastate COE Local Switching Investment increased 22% and 25% between 1991 and 1998, while Interstate COE Local Switching Investment was flat over this same period
- $ROR = \text{revenues} - \text{expenses} / \text{Average Net Investment (ANI)}$ 
  - » From 1991 to 1993 LS ANI declined due to the DEM phase down
  - » In 1998 LS ANI further declined due to reassignment of line ports to the Common Line Basket
  - » LS ANI adjustments have contributed to the relatively "high" LS ROR

# Interstate Local Switching DEM Factor



# Interstate Local Switching DEM Factor

---

- The DEM Factor has declined due to:
  - » The transition from SPF to DEM
  - » The rapid growth of Internet usage

# Local Switching Rate Structure

---

- **Current Structure**

- » **Local Switching per minute of use**
- » **Flat Rated Trunk Port charges**
- » **Flat rated charges for the line ports**
- » **Permissive**
  - **Signaling, and**
  - **Call set up charges**

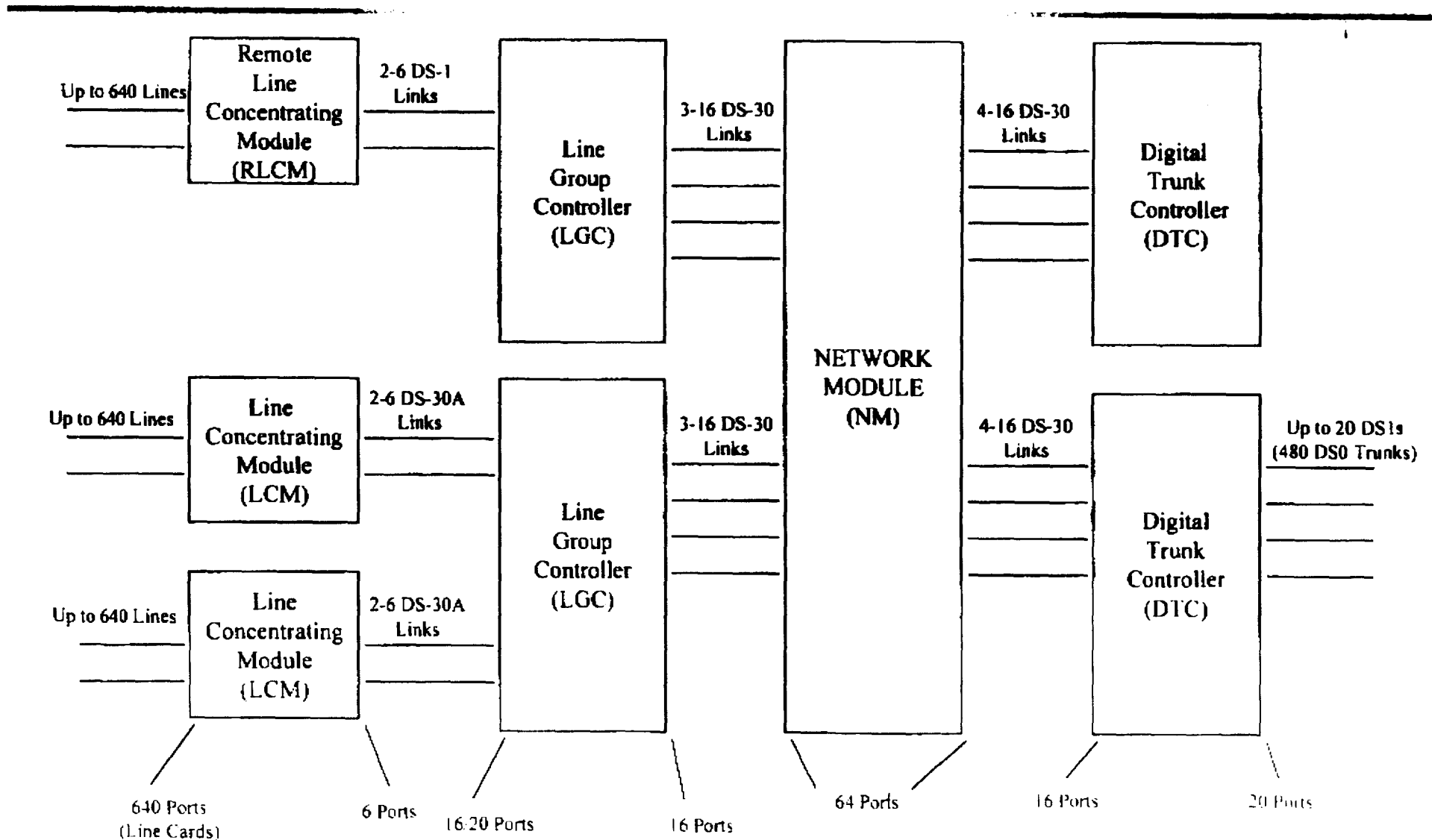
# Local Switching

## Alternative Rate Structures

---

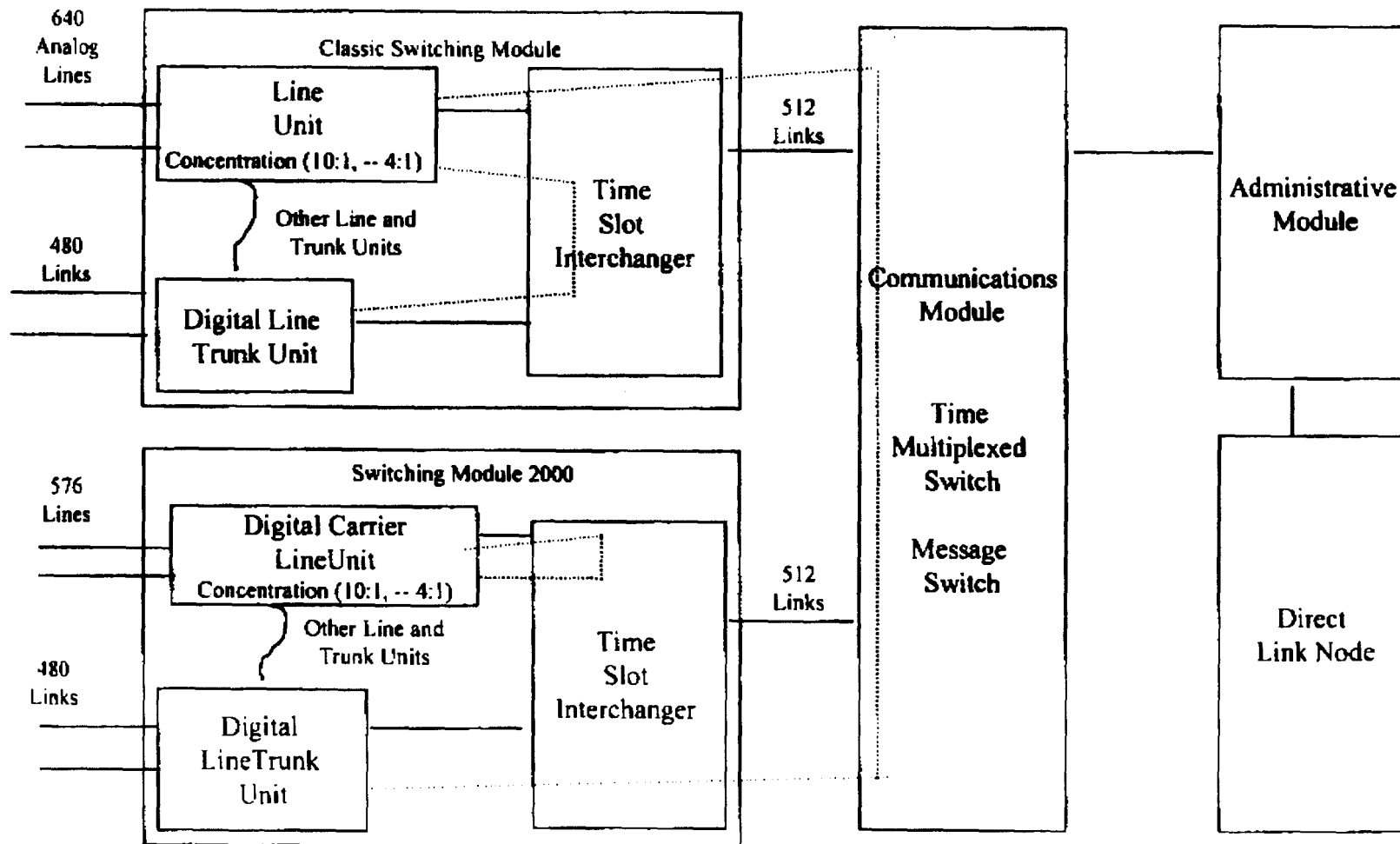
- **Alternative Proposed Structures**
  - » **Sprint capacity based rate structure proposed for local interconnection in CC Docket No. 96-98**
    - supposedly to address perception that switching investment is largely fixed
    - IXCs would buy links into switch per the Sprint proposal
  - » **Peak vs. Off-peak Pricing**
    - **Lower per minute of use rate in off-peak periods**
      - reflects the perceived lower traffic sensitive costs during off-peak periods
  - » **Volume Discounts or Tapered charges**

# Simplified Diagram of a Switch DMS-100



# Simplified Diagram of a Switch

## 5ESS



Example of call paths



# Capacity Based Pricing

---

## ● Pros:

- » May provide economic incentives to IXC's to increase traffic in off-peak periods
- » May be beneficial to carriers that have a balanced pattern of traffic

## ● Cons:

- » May penalize small carriers that lack economies of scale
- » May be inefficient on the terminating side
  - Each carrier may have to purchase links to all terminating end offices
- » May be inefficient on the originating side
  - Each carrier may have to purchase sufficient capacity for its own busy hour
- » May result in loss of sharing efficiencies causing higher overall switching investment and higher rates to many consumers
- » May provide carriers an incentive to disconnect DTT to low volume switches
  - A mandated structure must not create an adverse incentive for IXC's to migrate DTT from end offices to tandems

# Recommended Solutions for Local Switching Rate Structure

---

- Don't mandate new switching rate structures
  - » Let the marketplace determine optimal and efficient rate structures
- Allow ILECs to offer new switching rate structures without burdensome Part 69 waivers
  - » FCC may require that the existing rate structure is preserved
- Incentives may be offered to ILECs that provide capacity based rate alternatives